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AZ CORP COMMISSION

## BEFORE THE ARIZONA CORPORATION COMMISSION 2016 NOV 15 A 11: 59

2 **COMMISSIONERS** 

Arizona Corporation Commission

3 DOUG LITTLE, Chairman

**BOB STUMP BOB BURNS** 

TOM FORESE

ANDY TOBIN

DOCKETED

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IN THE MATTER OF THE COMMISSION'S INVESTIGATION OF VALUE AND COST OF DISTRIBUTED GENERATION.

Docket No. E-00000J-14-0023

GRAND CANYON STATE **ELECTRIC COOPERATIVE ASSOCIATION INC.'S EXCEPTIONS TO** RECOMMENDED OPINION AND ORDER

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Grand Canyon State Electric Cooperative Association, Inc. ("GCSECA"), on behalf of its electric distribution cooperative members (the "Cooperatives"), 1 submits these exceptions to Administrative Law Judge Jibilian's Recommended Opinion and Order dated October 7, 2016 (the "ROO").

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## **COOPERATIVE FLEXIBILITY**

GCSECA appreciates the time and energy that both the Utilities Division Staff and Judge Jibilian invested in this docket and in developing the proposed methodologies described in the ROO. The ROO contains several important Findings supported by the Cooperatives. Specifically, GCSECA agrees that the current Net Metering that provides for the banking of Distributed Generation ("DG") exports should be eliminated and replaced by a mechanism for

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<sup>&</sup>lt;sup>1</sup> GCSECA's electric distribution cooperative members include Dixie Escalante Rural Electric Association, Inc.; Duncan Valley Electric Cooperative, Inc.; Garkane Energy Cooperative, Inc.; Graham County Electric Cooperative, Inc.; Navopache Electric Cooperative, Inc.; Mohave Electric Cooperative, Inc.; Sulphur Springs Valley Electric Cooperative, Inc.; and Trico Electric Cooperative, Inc.

utility direct purchase of DG exports. (ROO, Finding 131, p. 166, ll. 17–19.) The ROO also correctly recognizes that rooftop solar DG customers are partial requirements customers and should be treated as a separate rate class where supported by a valid cost of service study. (ROO, Findings 151 and 152, p. 169, ll. 5–10.)

Additionally, GCSECA supports and requests Commission approval of the portions of the ROO that acknowledge the Cooperatives' unique characteristics and afford them flexibility to address the various DG issues raised in this proceeding. GCSECA specifically supports the Ordering Paragraph establishing that the Cooperatives should not be required to comply with any one-size-fits-all requirements (ROO, p. 172, ll. 1–3). In keeping with the goal of flexibility, GCSECA proposes a few additional revisions in order to clarify that the Cooperatives are not subject to the provisions of the ROO establishing methodologies for setting the rate paid for DG exports (either the "Staff Avoided Cost Methodology with Five-Year Forecasting" or the "Staff Resource Comparison Proxy Methodology with a Five-Year Rolling Average") or requiring that the rate be set in a full rate case. The record contains ample support for excluding the Cooperatives from these requirements in light of the economic and operational hardships involved, including the following key concerns.

First, the methodologies referenced in the ROO involve complicated, multi-factored analyses, potentially requiring significant amounts of data to be gathered and analyzed. These methodologies are better suited for investor-owned, integrated utilities, not distribution-only cooperatives. While certain components of these methods may be applicable to the Cooperatives, the Cooperatives should be allowed to calculate their DG export rates using calculations and procedures tailored to their unique, individual circumstances. For example, the Cooperatives (unlike integrated utilities) do not avoid any significant future generation or

1 transmission costs as a result of DG because a reduction in system peak demand does not reduce 2 3 4 5 6 7 8 9 10 11 12 13

their fixed generation and transmission costs, which are purchased through long-term wholesale contracts. Accordingly, to the extent that Staff's Avoided Cost Methodology (especially the matrix attached thereto as Exhibit A) is based on avoided generation and transmission, it is inapplicable to the Cooperatives. Likewise, for Cooperatives that do not currently have utility scale solar PPAs in place or have utility scale solar PPAs not reflective of current pricing, use of Staff's Resource Comparison Proxy Methodology could result in unreasonably high export rates calculated using other utility PPAs as a proxy.<sup>2</sup> For these reasons, GCSECA proposes that the Commission enter a Decision that does not limit the Cooperatives to the ROO's methodologies, but allows them to use Staff's as well as other reasonable approaches to calculate their DG export rates.<sup>3</sup> GCSECA also requests confirmation that the Cooperatives with and without pending rate cases are not subject to providing the underlying data for the ROO's methodologies.4

Next, under the current Net Metering system, many of the Cooperatives have the option to revise their tariffs annually based on updated avoided cost data and without the need for a full rate case. This flexible approach makes sense, given the Cooperatives' unique circumstances, including the fact that they purchase power through wholesale contracts. GCSECA believes a similar approach should be used for setting the Cooperatives' excess DG rate. Instead of

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<sup>20</sup> <sup>2</sup> Specifically, non-Cooperative utility scale solar PPAs reflect costs that are not necessarily representative of a Cooperative's avoided costs because such utilities are subject to mandatory renewable energy targets and the Cooperatives are not. 21

<sup>&</sup>lt;sup>3</sup> For instance, if Staff's Resource Comparison Proxy Methodology is reflective of current solar pricing or establishes a statewide utility scale solar PPA price, the Cooperatives should have the option of using that price as a

We note that the Cooperatives with pending rate cases are not included in the recommended order related to Net Metering waivers (ROO, p. 171, ll. 16).

requiring the time and expense of a full rate case, GCSECA proposes allowing the Cooperatives to adjust their excess compensation rate based on periodic data filings.

Based on the foregoing, GCSECA respectfully requests that the Commission modify the ROO to confirm the Cooperatives' exemption from mandatory application of the ROO's two proposed methodologies and rate case requirement. To this end, GCSECA proposes the following revisions (additions shown in bold):

Page 154, lines 6–11, be revised to read as follows:

GCSECA requests that the Cooperatives be afforded flexibility to develop rate design solutions to cost shifts resulting from DG integration, and that the Cooperatives not be required to comply with any one-size-fits-all requirements that would impose economic and operational hardships. As Staff states, the Cooperatives are different in important respects from the other utilities participating in this proceeding. We believe that the value of DG methodology methodologies we adopt herein will allow the unique circumstances of the Cooperatives to be taken into account should be available to the Cooperatives, but do not require the Cooperatives to provide all the data included in the methodologies and do not foreclose the option to utilize other methodologies that may be more appropriate to address a given Cooperative's unique circumstances. Instead, the method for determining the rate that a particular Cooperative should pay for DG exports should be evaluated on a case-bycase basis.

Finding 155, page 170, lines 1–3, be revised to read as follows:

The Cooperatives should be afforded flexibility to develop rate design solutions to the cost shift caused by DG and should not be required to comply with any one-size-fits-all requirements that would impose economic and operational hardships. Therefore, in pending and future rate cases, the Cooperatives shall not be limited to Staff's Avoided Cost methodology or Staff's Resource Comparison Proxy methodology and shall not be required to provide to Staff all the underlying data that these methodologies rely upon. Further, the Cooperatives shall have the option to revise their export compensation rates based on updated data filings without the need for a full rate case.

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First Ordering Paragraph on page 172, lines 1–3, be revised to read as follows:

IT IS FURTHER ORDERED that the Cooperatives should be afforded flexibility to develop rate design solutions to the cost shift caused by DG and should not be required to comply with any one-size-fits-all requirements that would impose economic and operational hardships. Therefore, in pending and future rate cases, the Cooperatives shall not be limited to Staff's Avoided Cost methodology or Staff's Resource Comparison Proxy methodology and shall not be required to provide to Staff all the underlying data that these methodologies rely upon. Further, the Cooperatives shall have the option to revise their export compensation rates based on updated data filings without the need for a full rate case.

## **GRANDFATHERING**

GCSECA is also concerned that the grandfathering requirement set forth in the ROO is too rigid. The ROO proposes that all DG customers who signed up for new DG interconnection prior to the effective date of the Commission's decision in a pending or future rate case to be considered "fully grandfathered" and leaves no room for utility-specific exceptions or inquiries. (ROO, p. 153, l. 23 – p. 154, l. 4.)

As an initial matter, the Cooperatives believe it is premature to decide the issue of grandfathering rate design. Whether or not a particular rate design should be grandfathered needs to be decided in a rate case when the proposed rate design changes are actually known.

Blanket grandfathering of rate design in a vacuum could lead to improper results and potentially contentious rate case issues about what the blanket grandfathering actually intended to cover.

Alternatively, should the Commission decide to set rate design grandfathering policy outside of a rate case, the scope of the ROO's grandfather provision requires clarification. The language prohibiting "any changes to rate design" should be applicable only to circumstances where a separate rate class is established for DG customers, is supported by evidence in a rate

case establishing that no rate design change is appropriate, and should apply only to DG-related design issues. To the extent that DG customer(s) are not in a separate rate class, then they should be treated similarly to non-DG customers and should be subject to any generally applicable rate design changes. Because the language in the ROO could be interpreted to improperly prohibit the Commission from adopting generally applicable, non-DG rate design changes simply because the changes would apply to grandfathered DG customers, GCSECA urges the Commission to eliminate the "rate design" references or otherwise clarify the intended scope.

GCSECA is also concerned that the ROO's grandfathering provision is inconsistent with the Commission's recent decision in the UNS Electric rate case, Decision No. 75697, which acknowledged that "each unique rate case may warrant different results." (Decision No. 75697, p. 119, l. 15.) The Cooperatives are a prime example of unique utilities that may warrant different results. For instance, as demonstrated in one GCSECA member's currently pending rate case, rural cooperatives can experience a higher percentage of rooftop solar penetration because of their typically higher retail rates, which provide for-profit solar contractors higher returns. Cooperatives also serve rural areas that are often the most economically challenged in the State. As a result, extending the grandfathering cutoff has a disproportionate impact on non-DG cooperative members who are often the least financially equipped to pay for the cost shift. Therefore, GCSECA proposes the following revisions (additions shown in bold) to better align the Commission's decision in this case with its statements in Decision No. 75697 and preserve the Commission's ability to fully evaluate the impact that grandfathering will have on the Cooperatives and their rural members:

<sup>&</sup>lt;sup>5</sup> Docket No. E-01461A-15-0363.

Page 153, line 21 – page 154, line 4, be revised to read as follows:

Generally, grandfathering decisions should be made in the context of a rate case. However, the value of DG methodology we adopt in this proceeding may lead to a change, however gradual, in the compensation rate for solar exports that will be set in pending utility rate cases. Therefore, it is important to make clear that for the first utility rate case in which the value of DG methodology we adopt in this proceeding will be used, our default policy is that the new export compensation rate set in that case, as well as any changes to rate design, will should apply only to DG customers who sign up for new DG interconnection after the effective date of the Decision issued in that utility rate case. Unless unique circumstances warrant different results, DG customers who have signed up for new DG interconnection before the effective date of the Decision issued in that utility rate case will be considered to be fully grandfathered and continue to utilize currently-implemented-rate-design and net metering, and will be subject to currently-existing rules and regulations impacting DG.

First Full Ordering Paragraph on page 171, lines 2–9, be revised to read as follows:

IT IS FURTHER ORDERED that for the first utility rate case in which the value of DG methodology we adopt in this proceeding will be used, including pending cases, our default policy is that the new export compensation rate set in that case, as well as any changes to rate design, will should apply only to DG customers who sign up for new DG interconnection after the effective date of the Decision issued in that utility rate case. Unless unique circumstances warrant different results, DG customers who have signed up for new DG interconnection before the effective date of the Decision issued in that utility rate case will be considered to be fully grandfathered and continue to utilize currently-implemented-rate design and net metering, and will be subject to currently-existing rules and regulations impacting DG.

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RESPECTFULLY SUBMITTED this 15<sup>th</sup> day of November, 2016. 1 2 GALLAGHER & KENNEDY, P.A. 3 By4 Jepnifer A. Cranston 257 East Camelback Road 5 Phoenix, Arizona 85016-9225 6 Attorneys for Grand Canyon State Electric Cooperative Association, Inc. , 7 8 Original and 13 copies filed this 15<sup>th</sup> day of November, 2016, with: 9 Docket Control 10 Arizona Corporation Commission 1200 West Washington Street Phoenix, Arizona 85007 11 12 **Copy** of the foregoing delivered this 15<sup>th</sup> day of November, 2016, to: 13 Teena Jibilian, Administrative Law Judge 14 Hearing Division Arizona Corporation Commission 1200 West Washington Street Phoenix, Arizona 85007 16 Copies of the foregoing mailed this 17 15<sup>th</sup> day of November, 2016, to: 18 Garry D. Hays Greg Patterson Law Offices of Garry D. Hays, PC Munger Chadwick 19 2198 East Camelback Road, Suite 305 916 West Adams, Suite 3 20 Phoenix, Arizona 85016 Phoenix, Arizona 85007 ghays@lawgdh.com greg@azcpa.org; Gpatterson3@cox.net

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